

I. Purpose:

The intent of the policy is to protect the assets and interests of the City of Cottonwood, and outline the responsibility of employees for detecting, reporting, and resolving instances of fraud, and suspected fraudulent activities.

II. Policy:

- A. It is the policy of the City of Cottonwood to identify and promptly investigate any possibility of fraudulent or related dishonest activities against the City and, when appropriate, to pursue legal remedies available under the law.
- B. The City will take appropriate disciplinary and legal actions against employees and/or entities to include the possibility of termination of employment, restitution, and forwarding of information to the appropriate authorities for criminal prosecution.
- C. This policy will attempt to clarify acts that are considered to be fraudulent, and describe the steps to be taken when fraud or other related dishonest activities are suspected. This policy also includes the procedures to follow in accounting for missing funds, restitution, and recoveries.

III. Definitions:

- A. **City:** The City of Cottonwood and all of its components, regardless of source of funding.
- B. **Employee:** Any staff member who receives compensation, either full or part time, from the City. The term also includes any volunteer who provides services to the City through an official arrangement with the City or a City organization.
- C. **Management:** City Manager, General Manager, Director, Division Manager, Supervisor, or other individual who manages or supervises funds, expenditures, assets, or other resources, including human resources.
- D. **Fraud:** Fraud is defined as the intentional deception, misappropriations of resources or the manipulation of data to the advantage or disadvantage of a person or entity.
- E. **Fraudulent Activity/Fiscal Misconduct:** Defalcation, misappropriation, and other fiscal irregularities or improprieties meeting the definition of fraud under Section IV - Actions Constituting Fraud.

- F. **Screening:** Investigation into the following to determine the business practices, liabilities, and integrity of vendors and their principals:
- Criminal records
 - Bankruptcy records
 - Illegal activity allegations
 - Civil cases
 - Liens
 - Media coverage
- G. **Suspected Fraudulent Activity:** A reasonable belief or actual knowledge that fraudulent activity has or is occurring. Failure to show an actual diversion of assets or loss shall not be considered unreasonable belief.

IV. Actions Constituting Fraud:

Dishonest or fraudulent activities include, but are not limited to, the following:

- A. Forgery or alteration of documents (checks, promissory notes, timesheets, independent contractor agreements, purchase orders, budgets, etc.).
- B. Intentional misrepresentation of information on documents.
- C. Misappropriations of funds, securities, supplies, or any other asset.
- D. Theft, disappearance, or destruction of any asset.
- E. Improprieties in the handling or reporting of money transactions.
- F. Employee acceptance or solicitation of any gift, favor, or service that might reasonably tend to influence the employee in the discharge of his or her official duties.
- G. Authorizing or receiving payments for goods not received or services not performed.
- H. Authorizing or receiving payment for time not worked.
- I. Knowing, reckless, or intentional inaccuracies in the maintenance of books and records or irregularities in financial reporting.
- J. Computer related activities involving any of the above activities, including the manipulation of data or misappropriation of City owned software.

K. Any apparent violation of Federal, State, or local laws related to dishonest activities or fraud.

L. Any similar or related activity.

V. Deterring Fraud and Corruption:

A. The City has established internal controls, policies and procedures in an effort to deter, prevent, and detect fraud and corruption.

B. All new employees, including temporary, seasonal, and contract employees, are subject to background investigations including a criminal background check.

C. Prior to making an offer of employment to any applicant, the City will also verify some or all of the following items: employment history, education, and personal references.

D. All vendors, contractors, and suppliers must be active, in good standing, and authorized to transact business in the City of Cottonwood. Vendors, contractors and suppliers are also subject to screening.

E. Contractual agreements with the City may contain provisions prohibiting fraudulent or corruptive acts and will include information about reporting fraud and corruption.

F. The City employees will receive fraud and corruption awareness training before policy implementation and on an annual basis.

G. New employees will receive this policy as part of their orientation at the commencement of employment.

H. Employees will be required to sign an acknowledgement verifying that they received a copy of the fraud policy. It is an employee's responsibility to read and understand the policy.

I. Each department is responsible for instituting and maintaining a system of internal controls to provide reasonable assurance for the prevention and detection of fraud, misappropriations, and other irregularities.

VI. Employee Responsibilities:

When suspected fraudulent incidents or practices are observed by or made known to an employee, the following should be done:

- A. The incident or practice must be relayed to his/her superior for reporting to the proper management official.
- B. When the employee believes the supervisor may be involved in the inappropriate activity, the employee shall make the report directly to the next higher level of management and/or City Manager.
- C. When a higher level of management and/or the City Manager is involved, employees should report directly to the City Attorney or Administrative Services General Manager.
- D. If the employee is uncomfortable reporting the information directly to management, the employee may make an anonymous report through the City's Fraud reporting webpage at this Uniform Resource Locator - url <http://www.ci.cottonwood.az.us/anonymousfraud.php>
- E. The reporting employee shall refrain from further investigation of the incident, confrontation of the alleged violator, or further discussion of the incident with anyone unless requested to by the Administrative Services General Manager, the Legal Department, and/or law enforcement personnel.

VII. Management Responsibility:

- A. Management is responsible for detecting fraudulent or related dishonest activities in their areas of responsibility.
- B. Each manager should be familiar with the types of improprieties that might occur in their area and be alert for any indication that improper activity, misappropriation, or dishonest activity is or was in existence in his or her area.
- C. When an improper activity is detected or suspected, management should determine whether an error or mistake has occurred or if there may be dishonest or fraudulent activity.
- D. If management determines a suspected activity may involve fraud or related dishonest activity, they should contact their immediate supervisor and their General Manager.

- E. If a General Manager is involved the City Manager, City Attorney, or Administrative Services General Manager should be contacted.
- F. If the City Manager is involved, the City Attorney or Administrative Services General Manager should be contacted.
- G. The General Manager should also immediately contact the Cottonwood Police if they feel the situation warrants such action (for example, obvious theft has taken place, security is at risk, or immediate recovery is possible).
- H. The Administrative Services General Manager will conduct an investigation with appropriate internal and external departments to include Risk Management.
- I. After turning the matter over to the Administrative Services General Manager, management should not attempt to conduct individual investigations, interviews, or interrogations.
- J. Management is responsible for taking appropriate corrective actions to ensure adequate controls exist to prevent reoccurrence of improper actions.
- K. Management will support the City's responsibilities and will cooperate with the Administrative Services General Manager, other involved departments, and law enforcement agencies in the detection, reporting and investigation of criminal acts, including prosecution of offenders.
- L. The Administrative Services General Manager shall have full and unrestricted access to all necessary records and personnel unless restricted by law.
- M. All City furniture and contents, including desks, lockers, and computers, are open to inspection when there is reasonable suspicion of a dishonest or fraudulent activity which makes such inspection appropriate; employees are hereby notified that they should have no subjective expectation of privacy in City-owned computers, desks, or other furniture.
- N. Every effort should be made to effect recovery of City losses.
- O. Great care must be taken in dealing with suspected dishonest or fraudulent activities to avoid the following:
 - 1. Incorrect accusations.
 - 2. Alerting suspected individuals that an investigation is underway.
 - 3. Treating employees unfairly.

4. Making statements that could lead to claims of false accusations or other offenses.
 5. Individuals who knowingly make false accusations may be subject to disciplinary action.
- P. Responsibilities of the manager in handling dishonest or fraudulent activities include the following:
1. Do not contact (unless requested) the suspected individual to determine facts or demand restitution. Under no circumstances should there be any reference to "what you did," "the crime," "the fraud," "the forgery," "the misappropriation," etc.
 2. Do not discuss the case, facts, suspicions, or allegations with anyone outside the City, unless specifically directed to do so by the City Attorney.
 3. Do not discuss the case with anyone inside the City organization other than employees who have a need to know such as the City Manager, Administrative Services General Manager, City Attorney or law enforcement personnel.
 4. Direct all inquiries from the suspected individual, or his or her representative, to the Administrative Services General Manager, City Manager, or City Attorney. All inquiries by an attorney of the suspected individual shall be directed to the City Attorney. Direct all inquiries from the media to the City Manager. A proper response to such an inquiry might be, "I'm not at liberty to discuss this type of matter."
 5. Take appropriate corrective and disciplinary action, up to and including termination, after consulting with Human Resources, in conformance with the City's Personnel Policies and Procedures.

VIII. Administrative Services Responsibilities:

- A. Upon assignment by the City Manager, the Administrative Services General Manager will promptly direct a staff member(s) to investigate the fraud, and forward the names of the investigation team to the City Manager and City Attorney.
- B. In all circumstances where there appears to be reasonable grounds for suspecting that a fraud has taken place, the Administrative Services General Manager, in consultation with the City Attorney, will contact the Police Department.

- C. The Administrative Services General Manager shall be available and receptive to receiving relevant, confidential information to the extent allowed by law.
- D. If evidence is uncovered showing possible dishonest or fraudulent activities, the Administrative Services General Manager will proceed as follows:
 - 1. Discuss the findings with the appropriate management/supervisor and the General Manager.
 - 2. Advise management, if the case involves staff members, to meet with the Human Resources Manager (or his/her designated representative) to determine if disciplinary actions should be taken. Any disciplinary action taken will be in accordance with the City's Employee Manual policy.
 - 3. Report to the City's external auditor such activities in order to assess the effect of the illegal activity on the City's financial statements.
 - 4. Coordinate with the City's Risk Manager regarding notifications to insurers and proper filing of insurance claims.
 - 5. Take immediate action, in consultation with the City Attorney, to prevent the theft, alteration, or destruction of evidentiary records. Such action shall include, but is not limited to:
 - a. Removing the records and placing them in a secure location, or limiting access to the location where the records currently exist.
 - b. Preventing the individual suspected of committing the fraud from having access to the records.
- E. In consultation with the City Attorney and the Police Department, the Administrative Services General Manager may disclose particulars of the investigation with potential witnesses if such disclosure would further the investigation.
- F. If the Administrative Services General Manager is contacted by the media regarding an alleged fraud or audit investigation, the Administrative Services General Manager will consult with the City Manager and the City Attorney, as appropriate, before responding to a media request for information or interview.
- G. At the conclusion of the investigation, Administrative Services will document the results in a confidential memorandum report to the City Manager and the City Attorney. If the report concludes that the allegations are founded, the report will be forwarded to the Police Department.

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- H. An employee under investigation for fraud shall be notified at the earliest appropriate time under the circumstances, as determined by the Administrative Services General Manager and/or the City Manager. Following such notice, the employee shall be given an opportunity to respond to the allegations in writing to the Administrative Services General Manager within seven (7) calendar days. Any response submitted pursuant to this subsection will become part of the investigatory file.
- I. The Administrative Services General Manager will be required to make recommendations to the appropriate department for assistance in the prevention of future similar occurrences.
- J. Upon completion of the investigation, including all legal and personnel actions, all records, documents, and other evidentiary material, obtained from the department under investigation will be returned by Administrative Services to that department.

IX. False Allegations

The City recognizes that false allegations of fraud can seriously and permanently damage an employee's personal and professional reputation. Therefore, it shall be a violation of this policy for any City employee to make a knowingly or recklessly false allegation of fraud against another City employee, and employees who make such allegations may be subject to disciplinary action, up to and including dismissal.

X. Corrective Action and Discipline

- A. Final determination regarding action against an employee, vendor, recipient or other person found to have committed fraud or corruption will be made by the City Manager (or City Council if the City Manager is involved).
- B. Offenders at all levels of the City organization will be treated equally regardless of their tenure with the City.
- C. Determinations will be made based on a finding of facts in each case, actual or potential damage to the City, cooperation by the offender and legal requirements.
- D. Appropriate and timely action will be taken against those proven to have committed fraudulent acts. These remedial actions may include, but are not limited to:
 - 1. Disciplinary action (up to and including immediate termination of employment).

2. Restitution for all losses, including investigation and legal expenses, to the fullest extent of the law.
3. Forwarding information to the appropriate authorities for criminal prosecution.
4. Institution of civil action to recover losses.
5. Where the City of Cottonwood elects to take corrective or disciplinary action, it will proceed under the procedures in place under policy.
6. The City of Cottonwood may take corrective or disciplinary action without awaiting the resolution of criminal or civil proceedings arising from fraudulent conduct.

XI. Cost of Recovering Funds:

There is no special fund to cover the costs of recovery, such as hiring special investigators. These expenses may be allocated from existing budget funds.

XII. Retaliation:

Retaliation for filing a good faith report regarding suspected fraudulent activity is prohibited by this policy, and is cause for disciplinary action, up to and including termination.

XIII. Confidentiality:

- A. The City of Cottonwood treats all information received confidentially.
- B. Investigation results *will not be disclosed or discussed* with anyone other than those who have a legitimate need to know. This is important in order to avoid damaging the reputations of persons suspected but subsequently found innocent of wrongful conduct and to protect the City of Cottonwood from potential civil liability.